

Tan Chong Motor Holdings Berhad

(4405 | TCM MK) Main | Consumer Products & Services

Losses Widened in 3QFY23

KEY INVESTMENT HIGHLIGHTS

- **9MFY23 results disappointed**
- **Impacted by weak Ringgit, stiff competition and loss of MG franchise**
- **FY23F/24F revised down to deeper net loss of -RM99m/-RM60m**
- **Maintain NEUTRAL; PBV-based TP tweaked lower to RM0.92**

Another disappointing quarter. While we had expected a weaker 2HFY23, losses in 3QFY23 were deeper than expected. Tan Chong Motor (TCM) reported a net loss of -RM51m for its 3QFY23, which brought 9MFY23 net loss to -RM74m, weaker than both our and consensus estimates. The shortfall against our forecast is due to worse than expected USD:RM, weaker than expected Malaysian sales and deeper than expected losses for Vietnam operations.

Key highlights. Group 3QFY23 revenue was down -11%yoy led by lower contribution from autos (-17%yoy to RM592m) given persistent soft market sentiment and stiffer competition in both local and overseas markets. The auto division fell to an LBITDA of -RM20m given the lower revenue, unfavourable sales mix and weaker margins given the weak Ringgit. Additionally, EBITDA from other operations fell -78%yoy to RM7.3m mainly due to net forex loss on transactions and outstanding balances denominated in foreign currencies. The financial services division also saw lower EBITDA (-26%yoy) given higher provision for impairment loss on hire purchase receivables.

Indochina remains in the red. Indochina operations were still bleeding with Vietnam registering deeper LBITDA of -RM18m (-86%yoy). Termination of the group's exclusive distributorship of CBU MG vehicles in Vietnam effective June 2023 further dragged the Vietnam unit's performance, we believe. On a positive note, TCM launched a rebadged version of SGMW's N300P light truck for the Vietnam market in November 2023. The model is assembled at TCM's Danang plant which could improve the plant's utilisation rate, though there is no clarity yet on prospective volumes at this juncture. As a yardstick, the commercial vehicle segment (comprising mainly pick-ups, small trucks & light trucks) made up 24% (35,284 units) of Vietnam's Jan-Jul23' auto sales, based on data from Vietnam Automobile Manufacturers' Association.

Earnings estimates. We revise down FY23F/24F to deeper net loss of -RM98.7m/-RM60.2m from -RM58.1m/-RM46.9m previously to reflect weaker sales volume, higher operating cost and larger losses for Vietnam.

Maintain NEUTRAL. Our **TP** is tweaked lower to **RM0.92** (from RM0.94). Our valuation continues to peg TCM at 0.23x FY24F PBV multiple, at -1SD below historical mean given weak outlook in the near-term from stiff competition while recovery for the group's Indochina operations might be extended out further given the loss of its MG distributorship.

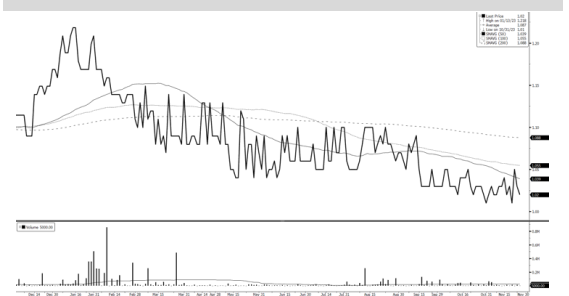
Maintain NEUTRAL

Revised Target Price: RM0.92
(Previously RM0.94)

RETURN STATISTICS

Price @ 27 th Nov 2023 (RM)	1.02
Expected share price return (%)	-9.6
Expected dividend yield (%)	2.9
Expected total return (%)	-6.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.0	-1.4
3 months	-1.0	-4.9
12 months	-10.5	-8.2

INVESTMENT STATISTICS

FYE Dec	2022A	2023F	2024F
Revenue	3,052.2	2,949.2	2,950.8
Operating Profit	26.3	(27.3)	3.3
Profit Before Tax	(14.2)	(71.5)	(39.8)
Core PATAMI	(35.0)	(98.7)	(60.2)
Core EPS	(5.2)	(14.7)	(9.0)
DPS	3.0	3.0	3.0
Dividend Yield	2.9	2.9	2.9

KEY STATISTICS

FBM KLCI	1448.15
Issue shares (m)	652.12
Estimated free float (%)	18.88
Market Capitalisation (RM'm)	664.87
52-wk price range	RM1 - RM1.25
3-mth average daily volume (m)	0.02
3-mth average daily value (RM'm)	0.02
Top Shareholders (%)	
Tan Chong Consolidated	40.47
Employees Provident Fund Board	6.41
Daiwa Securities Group Inc	5.73

Analyst

Hafriz Hezry

hafriz.hezry@midf.com.my

Table 1: Tan Chong Motor 9MFY23 Result Summary

YE Dec (RMmil)	3Q22	2Q23	3Q23	QoQ %	YoY %	9M22	9M23	YTD %
Revenue	729.9	619.2	649.8	4.9%	-11.0%	2313.5	1888.9	-18.4%
EBITDA	66.3	55.8	(9.1)	-116.3%	-113.7%	178.5	97.9	-45.2%
Operating profit	26.7	2.8	(41.9)	-1610.2%	-256.7%	54.9	(25.9)	-147.2%
Interest expense	(13.4)	(14.8)	(16.2)	9.2%	20.7%	(36.7)	(46.1)	25.6%
Interest income	2.9	4.1	5.8	40.2%	101.6%	6.8	15.0	119.9%
Associates	(0.5)	(0.2)	(0.1)	-68.2%	-89.4%	(1.2)	(0.8)	-32.1%
Pretax profit	15.7	(8.0)	(52.3)	550.2%	-432.7%	23.8	(57.8)	-343.1%
Tax expense	(10.4)	(12.0)	(1.5)	-87.7%	-85.8%	(35.5)	(21.7)	-38.7%
Minority Interest	(1.5)	(1.9)	(3.1)	65.1%	104.7%	(5.3)	(5.7)	7.6%
Net profit	6.9	(18.1)	(50.7)	179.6%	-837.1%	(6.4)	(73.9)	1054.8%
Core net profit	(11.2)	(18.1)	(50.7)	179.6%	350.9%	(24.1)	(73.9)	206.0%
EPS (sen)	(1.67)	(2.70)	(7.54)	179.6%	350.9%	(3.59)	(11.00)	
Gross DPS (sen)	1.50	0.00	0.00	NA	-100.0%	3.00	1.00	
Operating margin (%)	3.7%	0.4%	-6.5%			2.4%	-1.4%	
EBITDA margin	9.1%	9.0%	-1.4%			7.7%	5.2%	
Pretax profit margin (%)	2.2%	-1.3%	-8.1%			1.0%	-3.1%	
Net profit margin (%)	-1.5%	-2.9%	-7.8%			-1.0%	-3.9%	
Effective tax rate (%)	-65.9%	148.7%	2.8%			-149.1%	37.6%	
Nissan TIV (units)	3,208	2,534	2,418	-4.6%	-24.6%	10,983	7,452	-32.1%

Source: Company, MIDFR

Table 2: Tan Chong Motor 9MFY23 Result Breakdown

YE Dec (RMmil)	3Q22	2Q23	3Q23	QoQ %	YoY %	9M22	9M23	YTD %
Autos	710.0	595.6	591.9	-0.6%	-16.6%	2,254.0	1,786.5	-21%
Financial Services	16.3	15.9	16.1	1.3%	-1.4%	49.7	49.3	-1%
Others	3.6	7.8	41.9	438.6%	1053.3%	9.7	53.0	447%
Total revenue	729.9	619.2	649.8	4.9%	-11.0%	2,313.5	1,888.9	-18%
Autos	25.6	18.2	(19.8)	-208.8%	-177.3%	76.7	41.2	-46%
Financial Services	4.6	4.2	3.4	-18.2%	-26.4%	24.8	14.3	-42%
Others	36.1	33.4	7.3	-78.3%	-79.9%	77.0	42.4	-45%
Total EBITDA	66.3	55.8	(9.1)	-116.3%	-113.7%	178.5	97.9	-45%
EBITDA margins	9.1%	9.0%	-1.4%			7.7%	5.2%	
Autos	3.6%	3.1%	-3.3%			3.4%	2.3%	
Financial Services	28.4%	26.2%	21.2%			49.9%	29.0%	
Others	994.9%	430.2%	17.4%			794.0%	80.0%	
BY COUNTRY:								
Malaysia	652.3	550.1	574.6	4.5%	-11.9%	1,988.4	1,681.6	-15%
Vietnam	55.5	46.8	57.3	22.6%	3.3%	216.0	143.9	-33%
Others	22.1	22.3	17.9	-19.8%	-18.8%	109.0	63.3	-42%
Total Revenue	729.9	619.2	649.8	4.9%	-11.0%	2,313.5	1,888.9	-18%
Malaysia	79.5	68.5	10.4	-84.8%	-86.9%	213.6	135.5	-37%
Vietnam	(9.7)	(10.1)	(18.1)	78.7%	85.9%	(10.9)	(32.4)	198%
Others	(3.4)	(2.6)	(1.4)	-45.8%	-59.0%	(24.2)	(5.2)	-79%
Total EBITDA	66.3	55.8	(9.1)	-116.3%	-113.7%	178.5	97.9	-45%
Malaysia	12.2%	12.5%	1.8%			10.7%	8.1%	
Vietnam	-17.6%	-21.7%	-31.6%			-5.0%	-22.5%	
Others	-15.6%	-11.6%	-7.8%			-22.2%	-8.2%	
EBITDA margin	9.1%	9.0%	-1.4%			7.7%	5.2%	

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (FYE Dec)	FY20	FY21	FY22	FY23F	FY24F
Revenue	2,959.6	2,537.3	3,052.2	2,949.2	2,950.8
Operating expenses	(3,075.1)	(2,474.5)	(3,025.9)	(2,976.5)	(2,947.5)
Operating profit	(115.5)	62.8	26.3	(27.3)	3.3
Net interest expense	(46.8)	(43.2)	(39.7)	(46.2)	(45.1)
Associates	0.9	(1.5)	(0.7)	2.0	2.0
PBT	(161.3)	18.1	(14.2)	(71.5)	(39.8)
Taxation	(15.5)	(38.3)	(40.7)	(27.9)	(20.9)
Minority Interest	11.2	4.8	3.8	0.7	0.4
Net profit	(165.6)	(15.4)	(51.1)	(98.7)	(60.2)
Core net profit	(77.8)	(15.4)	(35.0)	(98.7)	(60.2)
Balance Sheet	FY20	FY21	FY22	FY23F	FY24F
PPE	2,311.7	2,317.9	2,414.5	2,303.4	2,199.8
Investments in associate	63.3	72.4	70.5	72.5	74.5
Others	854.2	758.0	704.4	704.4	704.4
Non-current assets	3,229.1	3,148.3	3,189.4	3,080.3	2,978.7
Inventories	772.7	778.0	748.4	701.6	702.0
Receivables	424.9	325.7	295.5	277.0	277.2
Others	311.8	229.4	246.9	247.3	247.8
Cash & equivalent	582.0	514.5	558.2	571.5	576.6
Current assets	2,091.4	1,847.6	1,849.0	1,797.5	1,803.5
Share capital	336.0	336.0	336.0	336.0	336.0
Minority Interest	(17.0)	(21.9)	(22.6)	(23.3)	(23.8)
Reserves	2,505.7	2,455.5	2,536.3	2,417.4	2,337.0
TOTAL EQUITY	2,824.7	2,769.7	2,849.7	2,730.1	2,649.3
Long-term borrowings	-	-	300.0	285.0	270.0
Others	432.4	417.0	442.8	442.8	442.8
Non-current liabilities	432.4	417.0	742.8	727.8	712.8
Short-term borrowings	1,501.5	1,268.2	974.0	974.0	974.0
Payables	510.5	492.8	415.1	389.2	389.4
Others	51.4	48.3	56.7	56.7	56.7
Current liabilities	2,063.4	1,809.3	1,445.9	1,419.9	1,420.1

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	(161.3)	18.1	(14.2)	(71.5)	(39.8)
Chgs in working capital	676.5	68.2	(21.7)	38.9	(0.7)
CF from Operations	572.3	123.2	102.4	78.5	70.2
Capex	(150.0)	(150.0)	(149.0)	(30.0)	(30.0)
CF from Investments	(270.7)	79.9	(30.2)	(30.0)	(30.0)
Dividends paid	(26.9)	(9.8)	(19.6)	(20.2)	(20.2)
Net movement in borrowings	(108.2)	(233.3)	(294.2)	(15.0)	(15.0)
CF from Financing	(135.0)	(280.7)	(35.1)	(35.2)	(35.2)
Net changes in cash	166.6	(77.6)	37.0	13.3	5.1
Beginning cash	407.8	582.0	514.5	558.2	571.5
Overdrafts & Deposits	7.5	10.1	6.6	0.0	0.0
Ending cash	582.0	514.5	558.2	571.5	576.6
Key Ratios	FY20	FY21	FY22	FY23F	FY24F
PBT margin	-5.4%	0.7%	-0.5%	-2.4%	-1.3%
Core net profit margin	-2.6%	-0.6%	-1.1%	-3.3%	-2.0%
ROA	-1.5%	-0.3%	-0.7%	-2.0%	-1.3%
ROE	-2.8%	-0.6%	-1.2%	-3.6%	-2.3%
Net gearing (%)	32.6%	27.2%	25.1%	25.2%	25.2%
Book value/share (RM)	4.20	4.12	4.24	4.06	3.94
PBV (x)	0.24	0.25	0.24	0.25	0.26
PER (x)	NA	NA	NA	NA	NA

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology